

Current Budget Scenario

Fiscal Year 2002

The Budget Challenge

- ★ In January when the session began, the Legislature initially faced a \$155 million drop in revenue estimates on a \$2.1 billion budget, a deficit of 7.5%.
- ★ Revenues continued to slide month-by-month, missing even revised projections by about 10% per month.
- ★ By the end of the fiscal year the final revenue shortfall had grown another \$134 million since January, making the total deficit approximately 13.5%.
- ★ Individual income taxes are primarily the biggest disappointment, and not counting a tax cut enacted the previous year, have declined about 13% due to the economy.
- ★ This is only the second time in 32 years that individual income taxes have come in lower than the previous year, the last time being 1983, which saw a 1.3% drop.

Solutions

- ★ Enacted immediate permanent budget reductions on all agencies and institutions including public schools. Public schools received a 2.5% reduction from their original appropriation (although still an increase over the previous year), higher education received a 3.0% reduction, and all other entities were reduced 4.0%.
- ★ Ongoing revenues were augmented with transfers from other cash reserves:
 1. \$22.0 million from our Capitol Building restoration project
 2. \$19.4 million from our April tobacco settlement payment
 3. \$80.0 million contingency from frozen building construction projects
- ★ At the close of the Legislative session in March the combination of budget cuts and items 1 & 2 above were thought to be enough to balance the budget.
- ★ The Legislature, however, also enacted a contingency plan (item 3 above) that if revenues further declined in the spring after the Legislature adjourned, the Governor, if necessary, was authorized to tap up to \$80 million in Permanent Building Funds (largely for campus projects) to avoid the need for a special session. As it turned out, about \$68.0 million of the \$80.0 million was used to balance the FY 2002 budget.

Fiscal Year 2003

The Budget Challenge

- ★ Set an out-year budget that covers the basic needs of education, deals with rising Medicaid and Corrections costs, and accomplish this without raising taxes or rescinding a tax cut package enacted in 2001, and accomplish this feat in an uncertain economy projected to generate an increase of only 2.6% in revenues.

Solutions

- ★ Enacted permanent budget base reductions on all agencies and institutions which averaged 5% and which resulted in a Fiscal Year 2003 total state General Fund appropriation that is 1.3% less than the final FY 2002 appropriation:

- Higher education received a 7.0% reduction in General Funds
 - Public schools received a 1.1% increase in General Funds
 - Professional- technical education received a 6.2% reduction
 - Health & Welfare (including Medicaid) received a 34% increase
 - Corrections received a 3.3% increase
 - All other entities received reductions ranging from 2% up to 19%
- ★ Ongoing revenues were augmented with transfers from other one-time cash reserves:
- \$26.7 million from our Budget Stabilization Fund (roughly half of our rainy day fund balance of \$53 million)
 - \$10.0 million from the \$26 m anticipated tobacco settlement payments
 - \$7.0 million from the Permanent Building Fund
 - \$6.4 million from the Capitol Restoration project (none left in this fund)
 - \$3.0 million from the Water Pollution Control Fund

September Update on the Fiscal Year 2003 Budget

- ★ Because Fiscal Year 2002 revenues ended up much lower than even the revised projections, the original FY 2003 revenue projection was lowered \$177 million (reduced about 9.8%).
- ★ The Governor announced a contingency plan recommendation to deal with this deficit. Basically the plan recommends using all of the remaining one-time cash reserves available to the state and a 3.5% spending holdback which exempts K-12 and higher education.
- ★ The basic budget balancing components include the following:
- \$25 million from the Budget Stabilization Fund (leaving a balance of only \$1.3 million).
 - \$55 million from the Permanent Building Fund, using all of the remaining balance from the original \$80 million contingency fund, plus an additional \$35 million.
 - \$35 million in Permanent Building Fund monies from deferring maintenance.
 - \$26.9 million in tobacco settlement payments for the next year.
 - \$44.1 million from the Millennium Fund corpus, which is a trust fund set up with the tobacco payments.
 - \$5 million from the Risk Management Fund.
 - \$26.5 million in budget cuts from a 3.5% holdback (exempts public schools and higher education.)

FY 2004 Outlook

- ★ The outlook for FY 2004 is problematic if the economy does not do a dramatic turn around. Idaho is facing a budget situation in which there are no cash reserves left to look to as an option in closing a 10.0% gap between ongoing revenues and ongoing expenditures.